

## ■ Miscellaneous Sales and Use Tax Changes

### **T0:** Retailers and Servicepersons

Beginning on or after June 24, 1996, your receipts from all sales of equipment and replacement parts used primarily in coal exploration, mining, off-highway hauling, processing, maintenance, or reclamation (including equipment purchased for lease) are exempt from Illinois Sales and Use Tax.

Beginning on or after June 25, 1996, your receipts from all sales of equipment and replacement parts used primarily in oil field exploration, drilling, or production (including equipment purchased for lease) are exempt from Illinois Sales and Use Tax.

Prior to the dates stated above, purchases of equipment and replacement parts had to cost \$250 or more per item in order to be exempt.

Sales of equipment that is not used primarily in an exempt manner, sales of motor vehicles that must be titled or registered with a unit of government, and sales of any replacement parts for either of the above instances do not qualify for this exemption.

### **How does this change affect me?**

Removing the \$250 requirement has added different sources from which to purchase these items. Many retailers, such as hardware stores and automotive parts suppliers, offer equipment and replacement parts that may now qualify for this exemption.

### **Must I keep records to document these sales?**

Yes. When you make sales that qualify for one of these exemptions, you must keep in your records a completed Form ST-587, Equipment Exemption Certificate, or other certification stating

- your name and address,
- the purchaser's name and address,
- a description of any items sold, and
- a statement that any items purchased will be used primarily for
  - coal exploration, mining, off-highway hauling, processing, maintenance, or reclamation, or
  - oil field exploration, drilling, or production.

### **How do I report these sales on my Form ST-1?**

As with other receipts from exempt sales, you must include these receipts on Line 1 of your Form ST-1, Sales and Use Tax Return. Write the specific receipts from these exempt sales on Item 15 of Form ST-1, Worksheet for Line 2. Include the amount from Item 15 in the total deductions you write on Line 2 of your Form ST-1.

### **T0:** Retailers and Servicepersons

Beginning on or after July 1, 1996, the manufacturer's purchase credit (MPC) has been expanded to allow graphic arts producers to earn MPC by purchasing exempted graphic arts machinery and equipment.

They may apply this credit against their state tax liability on purchases of "production-related tangible personal property" that do not qualify for the graphic arts machinery and equipment exemption.

For more information regarding the manufacturer's purchase credit, see our Informational Bulletins, FY 95-3, FY 95-4, and FY 96-3.

## How does this change affect me?

If any of your customers wish to use MPC when purchasing items from you, you must account for the credit at the time of purchase, keep a record of the use of the credit, and report the use of the credit.

## Must I determine if an item I sell is "production related tangible personal property"?

No. It is your customers' responsibility to use MPC only on the purchase of qualifying items.

For an item to qualify, it must be used or consumed in a production facility.

The credit may not be used on such items as office equipment used in administrative or management functions. Also excluded are items, such as vehicles, that are required to be titled or registered with a unit of government.

## Can my customers apply MPC to all sales tax obligations?

No. Your customers may apply this credit only toward their state tax obligations on qualified purchases. They must pay any additional locally imposed sales and use taxes, such as home rule taxes and mass transit taxes directly to you.

For example, the state rate for general merchandise is 6.25 percent. If the preprinted rate on Line 4a of your Form ST-1 is 7 percent, it includes locally imposed taxes. At the time of purchase, your customer may apply MPC against the state tax but must pay the difference (0.75 percent) directly to you.

## Must I keep records to document the sales I make to customers using MPC?

Yes. You will receive a certification statement from the buyer at the time of purchase. You must keep this statement in your books and records.

This statement must contain

- the name and address of your customer's business,
- the purchase date,
- your customer's Illinois Business Tax (IBT) number,
- the amount of credit being used,

- your customer's signature, and
- a statement that the MPC is being used to satisfy all or part of the state tax liability for the purchase.

**Note:** A purchase order containing the information listed above may also be used to document your sales.

## How do I report the MPC used when I file my Form ST-1?

Manufacturer's purchase credit is **not** an exemption. It is a credit and is subtracted after you calculate the tax due on your sales.

Report your receipts from sales of production-related tangible personal property on Line 1 of your Form ST-1. Calculate your tax due as you would for any other taxable receipts. Report the MPC you receive on Line 16a of your return. The amount on Line 21 reflects your tax due minus any MPC credit received.

## Questions?

If you have questions or need more information, please call or write us. Our telephone numbers and address are printed at the bottom of this bulletin.



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